

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|----------------------------|---|------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name NORTHEAST OTTAWA DISTRICT LIBRAR | County OTTAWA |
| Fiscal Year End 06/30/2006 | Opinion Date 09/01/2006 | Date Audit Report Submitted to State 10/11/06 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|-------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) BRICKLEY DELONG | | Telephone Number (231) 726-5800 | |
| Street Address 500 TERRACE PLAZA P.O. BOX 999 | | City MUSKEGON | State MI |
| | | Zip 49443 | |
| Authorizing CPA Signature <i>Timothy D. Arter, CPA</i> <i>for Brickley DeLong, PLC</i> | | Printed Name TIMOTHY D. ARTER | License Number 10253 |

Northeast Ottawa District Library
Ottawa County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

June 30, 2006

Northeast Ottawa District Library

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Brief Discussion of the Basic Financial Statements

This report consists of three parts -- *management's discussion and analysis (this section)*, *the basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- The first four columns of the financial statements includes information on the Library's General Fund, Capital Projects Fund, the Permanent Fund and the totals of the three funds under the modified accrual method of accounting. These financial statements focus on current resources and provide a detailed view about the Library's sources and uses of funds.
- The "Adjustments" column of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method of accounting.
- The last column provides both long-term and short-term information about the Library's overall financial status. The "Statement of Net Assets" and the "Statement of Activities" provide information about the activities of the Library as a whole and present a longer term view of the Library's finances.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

A. Statement of Net Assets

The Statement of Net Assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the Library is improving or deteriorating. As of June 30, 2006, the Library's net assets totaled \$718,898. Current assets totaled \$244,943 and consisted of cash and receivables. Current assets increased by \$20,775 due primarily to an increase in net assets. Capital assets of \$484,704 include the Library's collection of materials, land, building and furniture, fixtures and equipment less accumulated depreciation.

Condensed Statement of Net Assets

| | 2006 | 2005 |
|----------------------------|------------|------------|
| Current assets | \$ 244,943 | \$ 224,168 |
| Capital assets, net | 484,704 | 486,399 |
| Total assets | 729,647 | 710,567 |
| Current liabilities | 10,749 | 7,207 |
| Net assets | | |
| Invested in capital assets | 484,704 | 486,399 |
| Restricted | 9,500 | 9,000 |
| Unrestricted | 224,694 | 207,961 |
| Total net assets | \$ 718,898 | \$ 703,360 |

B. Statement of Activities

The information that follows reports key financial information in a condensed format. Amounts and totals reported are for all Library activities, including general operations, gifts received, and net assets, in order to give a complete picture.

Condensed Statement of Activities

| | <u>2006</u> | <u>2005</u> |
|---------------------------------|-------------------|-------------------|
| General revenues | | |
| Property taxes | \$ 203,319 | \$ 191,777 |
| Intergovernmental revenues | | |
| Federal | 579 | 6,485 |
| State | 13,527 | 17,127 |
| Local | 17,823 | 29,149 |
| Fines and forfeitures | 76,867 | 69,991 |
| Charges for services | 18,757 | 18,854 |
| Investment earnings | 4,498 | 2,665 |
| Contributions | 24,602 | 17,410 |
| Other | 228 | - |
| Total revenues | <u>360,200</u> | <u>353,458</u> |
| Expenditures | | |
| Salaries and wages | 183,301 | 176,016 |
| Fringe benefits | 29,840 | 29,935 |
| Operating supplies | 6,340 | 6,168 |
| Repairs and maintenance | 10,406 | 9,832 |
| Professional services | 11,837 | 8,997 |
| Insurance | 7,345 | 4,977 |
| Dues and fees | 21,424 | 20,705 |
| Utilities | 8,598 | 7,466 |
| Telephone | 2,124 | 2,182 |
| Millage elections | 7,631 | - |
| Other | 7,307 | 8,038 |
| Interest expense | - | 1,354 |
| Capital outlay | 6,296 | 23,675 |
| Depreciation | 42,212 | 19,665 |
| Total expenses | <u>344,661</u> | <u>319,010</u> |
| Change in net assets | 15,539 | 34,448 |
| Net assets at beginning of year | 645,952 | 611,504 |
| Restatement | 57,407 | - |
| Net assets at end of year | <u>\$ 718,898</u> | <u>\$ 645,952</u> |

The above condensed Statement of Activities is focused on the change in the Statement of Activities.

1. Revenues

- Property taxes increased due to the increase in taxable value of the governmental units.
- Intergovernmental revenues - local decreased due to the end of revenues related to the building debt.

2. Expenditures

- Salaries and fringe benefits are a significant expenditure for the Library, representing 63.5 percent of the Library's total expenditures.
- Salary expenditures increased due to increases in wages and in compensated absences.
- Professional services increased due to legal fees associated with the millage election.
- The current year millage expense related to the cost associated with requesting a special election.
- Capital outlay expense decreased due to the capitalization of the collection in the current year.
- Depreciation expense increased approximately \$22,500 because the prior year audit did not include depreciation on the Library's material collection.

Analysis of Financial Statements

The Library operates three separate funds, each of which serves a different function. The General Fund is the Library's primary operating fund in which all transactions for day to day operations are recorded. The Capital Project Fund is used to account for the accumulation and disbursement of funds for the construction and equipping of the Library facility. The Permanent Fund, Murray Memorial Trust, is utilized to account for the trust assets and related earnings which are restricted for Library book purchases.

The fund balance of the General Fund increased during the current year by \$16,413. This is due to increased property tax revenue and penal fines and an unexpected increase in contributions.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to address unplanned needs and events that occurred during the year. The more significant adjustments are as follows:

Revenues

- Fines and forfeitures were increased due to higher than expected penal fines received from the County.
- Contribution revenue was increased because the Friends of the Library made a significant contribution to the Library for millage election expenses.

Expenditures

- The millage expenditures were amended up due to millage election expenses.

The Library's significant budget-to-actual variance is discussed below:

Budget to Actual

- Fines and forfeitures exceed budget due to higher than expected penal fines.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$484,704 invested in the collection, land, buildings, furniture, fixtures and equipment, net of depreciation. The Library added \$34,222 in new collection items consisting of new books and various audio/visual materials. The Library also purchased new shelving, a wireless door counter and two new computers.

The Library's long-term debt activity consists of capped accumulated employee compensated absences (vacation time) to be paid to eligible employees upon retirement.

Next Year's Anticipated Budget Factors and Currently Known Facts

The Library expects some changes in the next fiscal year. Effective July 1, 2006, the Library decreased the number of hours from 49 hours per week down to 36 hours a week as a result of defeated millage on February 28, 2006. Property tax revenues are expected to increase from the three townships, but property tax revenue from the City of Coopersville is expected to remain stable. Penal fines are expected to decrease \$27,000 to \$30,000 in the next fiscal year due to the non-renewal of the penal fines contract between the Library and the township of Tallmadge. The Library's state aid is expected to remain stable and will include Tallmadge population for one additional year.

With the anticipated decrease in revenues, the Library is trying to control expenditures. Salaries and wages are anticipated to decrease approximately \$13,000 because the Library eliminated two staff positions and the former Library director is now working as a part-time consultant. Qualified employees of the Library pension plan will now be paying 50% of the monthly premium reducing Library personnel expenditures by approximately \$12,000. Paid vacation will be reduced from a maximum of five weeks to three weeks, and a reduced family plan for health insurance will further reduce personnel expenditures by \$4,000.

Additional controls on expenditures will reduce magazine subscriptions by 50% and new book and media purchases by 25%. However, the Library will be replacing four internet computers and the main server.

Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in them. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Library Director, Christine Kuperus at Northeast Ottawa District Library, 333 Ottawa Street, Coopersville, Michigan 49404.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

September 1, 2006

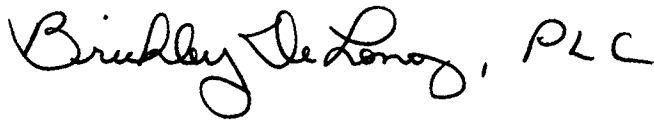
Board of Directors
Northeast Ottawa District Library
Coopersville, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Northeast Ottawa District Library as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Northeast Ottawa District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Northeast Ottawa District Library as of June 30, 2006 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - iv and 14 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Northeast Ottawa District Library
BALANCE SHEET—STATEMENT OF NET ASSETS
June 30, 2006

| | Balance Sheet - Modified accrual | | | | | | Statement of |
|--|----------------------------------|------------------|-----------------|-------------------|------------------|------------|--------------|
| | | | Permanent | | | | Net Assets - |
| | General | Capital | Murray | Total | Adjustments | | Full accrual |
| | | Projects | Trust | | | | |
| ASSETS | | | | | | | |
| Cash and investments | \$ 105,380 | \$ 44,789 | \$ 9,500 | \$ 159,669 | \$ - | \$ 159,669 | |
| Accounts receivable | 1,500 | - | - | 1,500 | - | 1,500 | |
| Due from other governmental units | 83,774 | - | - | 83,774 | - | 83,774 | |
| Due from other funds | - | 2,436 | - | 2,436 | (2,436) | - | |
| Capital assets, net | | | | | | | |
| Nondepreciable | - | - | - | - | 20,000 | 20,000 | |
| Depreciable | - | - | - | - | 464,704 | 464,704 | |
| Total assets | <u>\$ 190,654</u> | <u>\$ 47,225</u> | <u>\$ 9,500</u> | <u>\$ 247,379</u> | 482,268 | 729,647 | |
| LIABILITIES | | | | | | | |
| Accrued liabilities | \$ 5,150 | \$ - | \$ - | \$ 5,150 | - | 5,150 | |
| Due to other funds | 2,436 | - | - | 2,436 | (2,436) | - | |
| Compensated absences | - | - | - | - | 5,599 | 5,599 | |
| Total liabilities | 7,586 | - | - | 7,586 | 3,163 | 10,749 | |
| FUND BALANCES | | | | | | | |
| Reserved for collection expenditures | - | - | 9,500 | 9,500 | (9,500) | - | |
| Unreserved | | | | | | | |
| Designated for feasibility study | - | 5,000 | - | 5,000 | (5,000) | - | |
| Designated for state unemployment | 8,147 | - | - | 8,147 | (8,147) | - | |
| Undesignated | 174,921 | 42,225 | - | 217,146 | (217,146) | - | |
| Total fund balances | <u>183,068</u> | <u>47,225</u> | <u>9,500</u> | <u>239,793</u> | <u>(239,793)</u> | <u>-</u> | |
| Total liabilities and fund balances | <u>\$ 190,654</u> | <u>\$ 47,225</u> | <u>\$ 9,500</u> | <u>\$ 247,379</u> | | | |
| NET ASSETS | | | | | | | |
| Invested in capital assets | | | | | 484,704 | 484,704 | |
| Restricted - nonexpendable permanent trust | | | | | 9,500 | 9,500 | |
| Unrestricted | | | | | 224,694 | 224,694 | |
| Total net assets | | | | | \$ 718,898 | \$ 718,898 | |

The accompanying notes are an integral part of this statement.

Northeast Ottawa District Library
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES—STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

| | Revenues and Expenditures - Modified accrual | | | | | Statement of Activities - Full accrual |
|---|--|---------------------|------------------------------|------------|-------------|--|
| | General | Capital Projects | Permanent Murray Trust | Total | Adjustments | |
| Revenues | | | | | | |
| Property taxes | \$ 200,910 | \$ 2,409 | \$ - | \$ 203,319 | \$ - | \$ 203,319 |
| Intergovernmental revenues | | | | - | | |
| Federal | 579 | - | - | 579 | - | 579 |
| State | 13,527 | - | - | 13,527 | - | 13,527 |
| Local | 15,223 | 2,600 | - | 17,823 | - | 17,823 |
| Fines and forfeitures | 76,867 | - | - | 76,867 | - | 76,867 |
| Charges for services | 18,757 | - | - | 18,757 | - | 18,757 |
| Investment earnings | 4,069 | - | 429 | 4,498 | - | 4,498 |
| Contributions | 12,880 | 2,304 | 500 | 15,684 | 8,918 | 24,602 |
| Other | 228 | - | - | 228 | - | 228 |
| Total revenues | 343,040 | 7,313 | 929 | 351,282 | 8,918 | 360,200 |
| Expenditures | | | | | | |
| Current | | | | | | |
| Salaries and wages | 178,777 | - | - | 178,777 | 4,524 | 183,301 |
| Fringe benefits | 29,840 | - | - | 29,840 | - | 29,840 |
| Operating supplies | 6,340 | - | - | 6,340 | - | 6,340 |
| Repairs and maintenance | 10,406 | - | - | 10,406 | - | 10,406 |
| Professional services | 11,837 | - | - | 11,837 | - | 11,837 |
| Insurance | 7,345 | - | - | 7,345 | - | 7,345 |
| Dues and fees | 21,424 | - | - | 21,424 | - | 21,424 |
| Utilities | 8,598 | - | - | 8,598 | - | 8,598 |
| Telephone | 2,124 | - | - | 2,124 | - | 2,124 |
| Millage election | 7,631 | - | - | 7,631 | - | 7,631 |
| Other | 7,307 | - | - | 7,307 | - | 7,307 |
| Capital outlay | 34,998 | 2,468 | 429 | 37,895 | (31,599) | 6,296 |
| Depreciation | - | - | - | - | 42,212 | 42,212 |
| Total expenditures | 326,627 | 2,468 | 429 | 329,524 | 15,137 | 344,661 |
| Change in fund balances—net assets | 16,413 | 4,845 | 500 | 21,758 | (6,219) | 15,539 |
| Fund balances—net assets at July 1, 2005, as restated | 166,655 | 42,380 | 9,000 | 218,035 | 485,324 | 703,359 |
| Fund balances—net assets at June 30, 2006 | \$ 183,068 | \$ 47,225 | \$ 9,500 | \$ 239,793 | \$ 479,105 | \$ 718,898 |

The accompanying notes are an integral part of this statement.

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Northeast Ottawa District Library (Library) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

Reporting Entity

The Library was established in June 1976 as a district library through an agreement between the City of Coopersville and Polkton Charter Township pursuant to the District Library Establishment Act of the State of Michigan. In 1994, the library district was expanded to include Chester Township and Wright Township. The Library is governed by an eight member Library Board. Each governmental unit appoints two members. The Library is administered by a director appointed by the Board. The Library is primarily funded through a tax levy on property within the Library district, fines, fees and state aid.

Generally accepted accounting principles require that if the Library has certain oversight responsibilities over other organizations, those organizations should be included in the Library's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All three of the Library's funds are considered to be major funds.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so they have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for financial resources of the Library which are not required to be reported in another fund.

The *Capital Projects Fund* is utilized to account for the accumulation and disbursement of funds for the construction and equipping of the Library facility.

The *Permanent Trust Fund - Murray Memorial Trust fund* is utilized to account for the trust assets and related earnings which are restricted for Library book purchases.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources.

Assets, Liabilities and Fund Equity or Net Assets

Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Library reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed and the Library intends to hold the investment until maturity.

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

All property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are levied on December 1 and are due without penalty on or before February 15. The property taxes attach as an enforceable lien on property as of December 1. Property taxes are collected and forwarded to the Library by the participating municipalities. Uncollected real property taxes as of the following March 1 are turned over by the participating municipalities to the County for collection. The County advances the Library all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remains the responsibility of the Library.

The Library recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 day). The 2005 state taxable valuation for real/personal property of the Library was approximately \$348,000,000. The ad valorem taxes levied consisted of .5881 mills for operating purposes.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include library books, periodicals, equipment, etc. are defined by the Library as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years with exception of library books, periodicals, etc. which are all recorded as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property and equipment of the Library is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Library books, periodicals, etc. | 5 |
| Building and improvements | 50 |
| Furniture, fixtures and equipment | 5 - 75 |

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Compensated Absences

The Library's employees are granted vacation and sick leave in varying amounts based upon length of service and position. Unused sick pay leave may accumulate and be carried over to a subsequent year, subject to restrictions. No portion of unused sick leave is paid to employees at the time of termination or retirement. It is the Library's policy to recognize the cost of sick leave at the time payments are made. Vacation pay accrued at year-end which is subject to payment upon termination has been included as a liability on the statement of net assets and not on the balance sheet as the balance is not expected to be liquidated with expendable available financial resources.

Fund Equity

Reservations and restrictions represent amounts that are not appropriable or are legally segregated for a specific purpose.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the fiscal year, the Finance Committee submits to the Library Board a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Not later than June 30, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund and individual revenue and expenditure line item. The legal level of budgetary control is the individual line item. The Library Board made several supplemental budgetary appropriations throughout the year.

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issues by nationally recognized statistical rating organizations (NRSROs). The Library has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Library does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. The Library does not have a custodial credit risk policy for deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of June 30, 2006, \$38,231 of the Library's bank balance of \$168,107 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Library does not have a custodial credit risk policy for investments. In an investment, this is the risk that in the event of the failure of the counterparty, the Library's will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Library is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

| | Balance July 1, 2005 | Additions | Deductions | Balance June 30, 2006 |
|---|----------------------------|-----------|------------|-----------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 20,000 | \$ - | \$ - | \$ 20,000 |
| Capital assets, being depreciated: | | | | |
| Library books, periodicals, etc. | 354,587 | 34,222 | 31,525 | 357,284 |
| Building and improvements | 435,352 | - | - | 435,352 |
| Furniture, fixtures and equipment | 132,872 | 6,295 | - | 139,167 |
| Total capital assets, being depreciated | 922,811 | 40,517 | 31,525 | 931,803 |

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE D—CAPITAL ASSETS—Continued

| | Balance July 1, 2005 | | Additions | | Deductions | | Balance June 30, 2006 |
|---|----------------------------|----|-----------|----|------------|----|-----------------------------|
| Governmental activities:—Continued | | | | | | | |
| Less accumulated depreciation: | | | | | | | |
| Library books, periodicals, etc. | \$ 296,352 | \$ | 23,722 | \$ | 31,525 | \$ | 288,549 |
| Building and improvements | 91,424 | | 8,707 | | - | | 100,131 |
| Furniture, fixtures and equipment | 68,636 | | 9,783 | | - | | 78,419 |
| Total accumulated depreciation | 456,412 | | 42,212 | | 31,525 | | 467,099 |
| Total capital assets, being depreciated, net | 466,399 | | (1,695) | | - | | 464,704 |
| Capital assets, net | \$ 486,399 | \$ | (1,695) | \$ | - | \$ | 484,704 |

NOTE E—INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2006, the General Fund owes the Capital Projects Fund \$2,456 for capital donations received by the General Fund.

NOTE F—OTHER INFORMATION

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Library carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The Library is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Library. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Northeast Ottawa District Library
333 Ottawa
Coopersville, MI 49404

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Pension Plan—Continued

Funding Policy. Plan members are not required to contribute to the plan. The Library is required to contribute at an actuarially-determined rate depending upon position from 7.77 to 10.69 percent of covered wages.

Annual Pension Cost. For the year ended June 30, 2006, the Library's annual pension cost was approximately \$16,900 which the Library contributed. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

| Year ended | Approximate Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|------------|---|-------------------------------------|---------------------------|
| 06/30/04 | \$ 12,600 | 100 % | \$ - |
| 06/30/05 | 16,600 | 100 | - |
| 06/30/06 | 16,900 | 100 | - |

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

| Actuarial valuation date | Actuarial value of assets | Actuarial Accrued Liability (AAL) Entry Age | Unfunded AAL (UAAL) | Funded ratio | Covered payroll | UAAL as a percentage of covered payroll |
|--------------------------------|---------------------------------|---|---------------------------|-----------------|--------------------|---|
| 12/31/03 | \$ 107,496 | \$ 158,630 | \$ (51,134) | 68 % | \$ 121,988 | 42 % |
| 12/31/04 | 131,025 | 186,719 | (55,694) | 70 | 140,938 | 40 |
| 12/31/05 | 157,453 | 210,360 | (52,907) | 75 | 144,983 | 36 |

NOTE H—PRIOR PERIOD ADJUSTMENTS

General Fund fund balance was restated due to the effect of penal fines receivable that was not included in the prior year.

| | <u>General Fund</u> |
|-------------------------------------|--------------------------|
| Net assets at July 1, 2005 | \$ 96,664 |
| Due from other governmental units | <u>69,991</u> |
| Net assets at July 1, 2005 restated | <u><u>\$ 166,655</u></u> |

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—PRIOR PERIOD ADJUSTMENTS—Continued

Governmental activities capital assets were restated due to the effect of the addition of library books, periodicals, etc., net of accumulated depreciation, which were not included in prior years financial statements.

| | Governmental activities |
|---|----------------------------|
| Net assets at July 1, 2005 | \$ 645,952 |
| Capital assets, net | <u>57,407</u> |
| Net assets at July 1, 2005, as restated | <u><u>\$ 703,359</u></u> |

**NOTE I—RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

| | |
|--|-------------------|
| Total fund balance – governmental funds | \$ 239,793 |
|--|-------------------|

Amounts reported for government activities in the
Statement of Net Assets is different because:

Capital assets used in governmental activities are
not current financial resources and are not reported
in the governmental funds.

| | | |
|--------------------------|------------------|---------|
| Cost of capital assets | \$ 951,803 | |
| Accumulated depreciation | <u>(467,099)</u> | 484,704 |

Compensated absences in governmental activities are
not due and payable in the current period and are not
reported in the governmental funds.

(5,599)

Net assets of governmental activities in the
Statement of Net Assets

\$ 718,898

Northeast Ottawa District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

**NOTE I—RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE
FINANCIAL STATEMENTS—Continued**

| | |
|---|------------------|
| Net change in fund balances – total governmental funds | \$ 21,758 |
|---|------------------|

Amounts reported for government activities in the
Statement of Activities are different because:

| | |
|---|-------|
| Contribution of capital assets are recorded as revenues in the Statement of Activities, but not in the governmental funds. | 8,918 |
|---|-------|

Governmental funds report outlays for capital assets as
expenditures; in the Statement of Activities, these costs
are depreciated over their estimated useful lives.

| | | |
|----------------------|---------------|----------|
| Depreciation expense | \$ (42,212) | |
| Capital outlay | <u>31,599</u> | (10,613) |

Compensated absences are reported on the accrual method in
the Statement of Activities and reported as expenditures
when financial resources are used in the governmental funds.

| |
|----------------|
| <u>(4,524)</u> |
|----------------|

| | |
|---|-------------------------|
| Change in net assets in governmental activities | <u><u>\$ 15,539</u></u> |
|---|-------------------------|

REQUIRED SUPPLEMENTARY INFORMATION

Northeast Ottawa District Library
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2006

| | Original budget | Final budget | Actual | Variance with final budget positive (negative) |
|---|--------------------|-----------------|------------|---|
| Revenues | | | | |
| Property taxes | \$ 213,445 | \$ 214,790 | \$ 200,910 | \$ (13,880) |
| Intergovernmental revenues | | | | |
| Federal | 840 | 579 | 579 | - |
| State | 14,232 | 13,474 | 13,527 | 53 |
| Local | 800 | 1,220 | 15,223 | 14,003 |
| Fines and forfeitures | 65,000 | 69,990 | 76,867 | 6,877 |
| Charges for services | 17,980 | 18,545 | 18,757 | 212 |
| Investment earnings | 2,400 | 2,322 | 4,069 | 1,747 |
| Contributions | 5,288 | 11,380 | 12,880 | 1,500 |
| Other | - | 227 | 228 | 1 |
| Total revenues | 319,985 | 332,527 | 343,040 | 10,513 |
| Expenditures | | | | |
| Current | | | | |
| Salaries and wages | 180,200 | 180,000 | 178,777 | 1,223 |
| Fringe benefits | 30,000 | 29,841 | 29,840 | 1 |
| Operating supplies | 4,000 | 6,310 | 6,340 | (30) |
| Repairs and maintenance | 11,000 | 10,408 | 10,406 | 2 |
| Professional services | 9,300 | 11,837 | 11,837 | - |
| Insurance | 6,500 | 7,345 | 7,345 | - |
| Dues and fees | 25,430 | 21,426 | 21,424 | 2 |
| Utilities | 8,000 | 9,500 | 8,598 | 902 |
| Telephone | 2,300 | 2,134 | 2,124 | 10 |
| Millage election | - | 7,631 | 7,631 | - |
| Other | 8,755 | 7,339 | 7,307 | 32 |
| Capital outlay | 34,500 | 35,173 | 34,998 | 175 |
| Total expenditures | 319,985 | 328,944 | 326,627 | 2,317 |
| Net change in fund balance | \$ - | \$ 3,583 | 16,413 | \$ 12,830 |
| Fund balance at July 1, 2005, as restated | | | 166,655 | |
| Fund balance at June 30, 2006 | | | \$ 183,068 | |

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 1, 2006

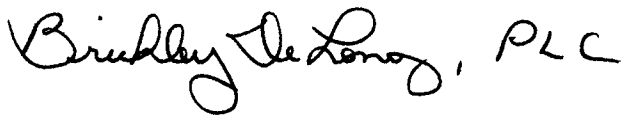
Board of Directors
Northeast Ottawa District Library
Coopersville, Michigan

In planning and performing our audit of the financial statements of Northeast Ottawa District Library for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Northeast Ottawa District Library's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of the reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above are believed to be material weaknesses.

This report is intended solely for the information of the Board of Directors, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.



REPORTABLE CONDITIONS

General

Recommendation 1: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The Library should seek opportunities to further segregate duties and strengthen internal controls. Often, the most effective approach is the expansion of documented approval of transactions by the Board of Directors and the assignment of a Board member to open and scan monthly bank statements.

Recommendation 2: All journal entries should have adequate supporting documentation and should have documented approval by an appropriate Library official.

During our testing, we noted that supporting documentation and documented proper approval of journal entries did not exist for all journal entries.

The maintenance of files with supporting documentation and documented approval of all journal entries would ensure that only appropriate journal entries are recorded.